



LG&E Energy Corp.
220 West Main Street (40202)
P.O. Box 32030
Louisville, Kentucky 40232

December 8, 2003

RECEIVED

DEC 08 2003

PUBLIC SERVICE
COMMISSION

Mr. Thomas Dorman, Executive Director
Public Service Commission
211 Sower Boulevard
P. O. Box 615
Frankfort, Kentucky 40602

**RE: AN INVESTIGATION PURSUANT TO KRS 278.260 OF THE EARNINGS
SHARING MECHANISM TARIFF OF KENTUCKY UTILITIES
CASE NO. 2003-00334**

Dear Mr. Dorman:

Please find enclosed and accept for filing the original and seven (7) copies of the Attachments to Question No. 29 (f) in the Response of Kentucky Utilities Company to the First Data Request of the Commission Staff dated October 30, 2003, in the above-referenced matter.

The attachment was inadvertently omitted from the bound copies filed on November 21, 2003. Should you have any questions concerning the enclosed, please contact me at your convenience.

Sincerely,

John Wolfram
Manager, Regulatory Policy/Strategy

Enclosures

cc: Parties of Record





LG&E Energy Corp.
220 West Main Street (40202)
P. O. Box 32010
Louisville, Kentucky 40232

March 24, 2003

Mr. Thomas Dorman
Executive Director
Public Service Commission of Kentucky
211 Sower Boulevard
P. O. Box 615
Frankfort, Kentucky 40602

Dear Mr. Dorman:

On February 15 and 16, 2003, Kentucky Utilities Company ("KU") experienced extraordinary damage to its electrical distribution and transmission system as the result of a severe ice storm. The storm caused damage to the KU system across the city of Lexington in Fayette County and seven surrounding counties. Due to the extremely large area of the state affected by the storm, extraordinary measures were required to restore service to a total of 146,000 customers who lost service as a result of the storm.

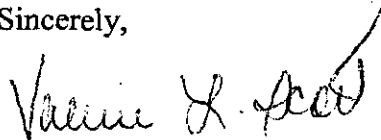
The costs of the extraordinary storm damage and KU's restoration effort, in magnitude and in actual dollars, far exceeded average annual storm-related losses. KU's preliminary estimate is that its costs from this single storm are approximately \$25 to \$30 million. Of this amount, KU estimates that \$8 to \$10 million will be chargeable to new construction and will ultimately be included in Account 101, "Electric Plant in Service." The remaining \$17 to \$20 million represents maintenance expenditures incurred for repairing lines, cutting trees and limbs, straightening poles and replacing minor items of property chargeable to maintenance expense. The Company is pursuing coverage under its insurance policy that may provide recovery up to \$13 million pursuant to the limitations of the policy. Any insurance proceeds will be applied to reduce capital and expense, as appropriate.

KU asks the Public Service Commission of Kentucky (Commission) to permit it to accumulate and defer for recovery in future rate proceedings before the Commission its actual storm-related costs beginning February 2003 in the appropriate accounts. The measures taken to restore service and expenses incurred were reasonable and prudent, and should, therefore, be recoverable in the future as a necessary cost of providing electric service to KU customers. Such deferral will be reduced by any insurance recoveries of expenses, as obtained. If approved, the deferred costs will be held in account 186, Miscellaneous Deferred Debits, until such time as they are considered in a future rate proceeding and the costs will not be included in the calculation of the annual Earnings Sharing Mechanism filing without prior approval from the Commission.

Page 2
Mr. Thomas Dorman
March 24, 2003

Under normal circumstances, KU charges storm damage costs to expense, as incurred. However, the magnitude of the cost of this storm far exceeds any expenses KU has historically incurred and was not anticipated when current rates were established. KU submits, therefore, that it is appropriate, consistent with recognized and sound accounting principles, to accumulate and defer these costs for recovery in subsequent rate proceedings before the Commission. KU respectfully requests that the Commission grant it authority to apply the proposed accounting treatment in order to make appropriate adjustments on its books of account at the earliest possible date. Your response by April 4, 2003 will ensure the Company that it can reflect the necessary adjustments in its books for the quarter ended March 31, 2003.

Sincerely,

A handwritten signature in cursive script, appearing to read "Valerie L. Scott", with a large, sweeping flourish at the end.

Valerie L. Scott
Director, Financial Planning & Accounting – Utility Operations

cc: Aaron Greenwell
Director, Division of Financial Analysis



Paul E. Patton, Governor

**Janie A. Miller, Secretary
Public Protection and
Regulation Cabinet**

**Thomas M. Dorman
Executive Director
Public Service Commission**

**COMMONWEALTH OF KENTUCKY
PUBLIC SERVICE COMMISSION**
211 SOWER BOULEVARD
POST OFFICE BOX 615
FRANKFORT, KENTUCKY 40602-0615
www.psc.state.ky.us
(502) 564-3940
Fax (502) 564-3460

**Martin J. Huelsmann
Chairman**

**Gary W. Gillis
Vice Chairman**

**Robert E. Spurlin
Commissioner**

April 4, 2003

Ms. Valerie L. Scott
Director, Financial Planning & Accounting – Utility Operations
LG&E Energy Corp.
220 West Main Street
Louisville, Kentucky 40202

RE: Request to Defer Ice Storm Expenses

Dear Ms. Scott,

The Commission Staff has reviewed your March 24, 2003 letter requesting authorization for Kentucky Utilities Company to accumulate and defer for recovery in future rate proceedings the actual storm-related costs associated with the February 15-16, 2003 ice storm. In your request, you state KU would record the deferred costs in Account No. 186 – Miscellaneous Deferred Debits, until such time as those costs are considered in a future rate proceeding. You also state that the deferred costs will not be included in the calculation of the annual Earnings Sharing Mechanism ("ESM") filing without prior approval from the Commission.

The March 24, 2003 request indicates that KU's preliminary estimate of the total costs from the February 15-16, 2003 ice storm are between \$25.0 and \$30.0 million. Of this total, between \$8.0 to \$10.0 million of these costs could be capitalized. There is also the potential of an insurance recovery of up to \$13.0 million.

Based on the information contained in your March 24, 2003 letter, the Commission Staff has concluded that it cannot grant the authorization you request. Deferring the ice storm costs would impact KU's financial position during calendar year 2003. As you know, KU has previously operated under an Earnings Sharing Mechanism ("ESM"), and authorization to continue the ESM for 2003 and beyond is now pending in Case No. 2002-00472



Letter to Ms. Scott
April 4, 2003
Page 2

In approving KU's ESM, the Commission determined that it should reflect actual revenues and expenses. Although the level of storm damage incurred in February 2003 was extraordinary, the costs do represent actual expenses. Under these circumstances, the issue of deferring the storm damage costs should be raised in Case No. 2002-00472 so that it can properly be considered in conjunction with KU's ESM.

Sincerely,

A handwritten signature in cursive script, appearing to read "Aaron Greenwell".

Aaron D. Greenwell
Director, Financial Analysis

cc: Michael S. Beer, Vice President, Rates and Regulation